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Message Text

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ACTION EA-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 AGRE-00 DOE-15 SOE-02
PA-02 /141 W
----------118224 130900Z /13
R 130614Z APR 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 432
INFO USMISSION GENEVA
AMCONSUL HONG KONG
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: ECON, ETRD, EFIN, KS
SUBJECT: A NEW BOOM?

REF: SEOUL 2248

SUMMARY: KOREA'S ECONOMY APPEARS ON THE THRESHOLD OF A NEW "BOOM". INDUSTRIAL PRODUCTION IS PICKING UP, CONSTRUCTION IS MOVING FORWARD AT AN ACCELERATING PACE, EXPORT GROWTH IS EXPANDING, AND THERE ARE INDICATIONS OF RENEWED INVESTMENT ACTIVITIES. EXPORTS IN MARCH AT $1,040 MILLION WERE 26.5 PERCENT OVER THE PREVIOUS MONTH AND THE RATE OF GROWTH OF L/C ARRIVALS IS INCREASING. IMPORTS ARE ALSO EXPANDING; TOTAL IMPORTS WERE $1,087 MILLION IN MARCH. TIGHT CONTROLS AND DECLINES IN NET FOREIGN ASSETS AND GOVERNMENT CREDIT NEEDS RESULTED IN A DROP IN MONEY SUPPLY LAST MONTH. THE RATE OF GROWTH OF CONSUMER AND WHOLESALE PRICES ALSO SEEMS TO BE DECELERATING. END SUMMARY.

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1. THERE ARE GROWING INDICATIONS OF A RENEWED "BOOM" IN THE KOREAN ECONOMY FUELED BY A RED HOT CONSTRUCTION INDUSTRY, GROWING EXPORTS AND INVESTMENT. FOR THE FIRST TIME IN SEVERAL YEARS THE OVERALL WARNING INDICATOR MOVED TO 1.9 IN FEBRUARY, ONLY 0.1 POINT BELOW THE POINT WHERE THE ECONOMY IS BY DEFINITION IN A CYCLICAL BOOM.

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2. THE INDUSTRIAL PRODUCTION INDEX FOR THE FIRST TWO MONTHS STOOD 23 PERCENT ABOVE THE CORRESPONDING PERIOD A YEAR AGO, THE HIGHEST RATE SINCE THE FIRST QUARTER OF 1976. THIS WAS DESPITE THE FACT THAT THE INDEX DECLINED 6.8 PERCENT IN FEBRUARY (2.7 PERCENT SEASONALLY ADJUSTED). PARTICULARLY STRONG DURING THESE MONTHS WERE PRODUCTION OF MACHINERY AND EQUIPMENT (UP 38 PERCENT), PRIMARY METALS (27 PERCENT), PETROLEUM AND CHEMICAL PRODUCTS (26 PERCENT) AND WOOD PRODUCTS (26 PERCENT). EVEN TEXTILES AND APPAREL SHOWED A STRONG 20 PERCENT PRODUCTION INCREASE.

3. IT IS THE CONSTRUCTION INDUSTRY, HOWEVER, WHICH REMAINS IN THE FOREFRONT OF BUSINESS ACTIVITY. FOR THE FIRST TWO MONTHS PERMITS ISSUED WERE UP 97 PERCENT OVER THE SAME MONTHS FOR 1977 WITH CONSTRUCTION PERMITS IN MAJOR CITIES SHOWING A 74 PERCENT INCREASE IN THE FIRST QUARTER. HOUSING REMAINED STRONG; PERMITS ISSUED INCREASED 117 PERCENT FOR THE FIRST TWO MONTHS AND 69 PERCENT FOR FEBRUARY ALONE. INDICATIVE OF RENEWAL INVESTMENT ACTIVITY WAS A 423 (SIC) PERCENT INCREASE IN FEBRUARY FOR INDUSTRIAL CONSTRUCTION PERMITS FROM JANUARY. ALTOGETHER TOTAL AREA AUTHORIZED FOR CONSTRUCTION AUTHORIZED AS OF THE END OF FEBRUARY REACHED 2.6 MILLION SQUARE METERS. (FOR THE FIRST QUARTER IN THE ELEVEN URBAN AREAS SURVEYED THE TOTAL HAD RISEN TO 3.1 MILLION SQUARE METERS.) CONSTRUCTION ISSUES CONTINUE TO PACE THE SEOUL STOCK EXCHANGE, REACHING UPPER PRICE LIMIT
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LEVELS DAILY. AS A RESULT, THE EXCHANGE AVERAGE IN MID-APRIL STOOD AT 545, AN ALL TIME HIGH AND UP 9.2 PERCENT SINCE DECEMBER LAST YEAR.

4. EXPORTS ARE SHOWING A BETTER THAN EXPECTED PERFORMANCE. EXPORTS FOR MARCH ROSE 26.5 PERCENT FROM THE PREVIOUS MONTH TO $1,040 MILLION ($1,048 MILLION SEASONALLY ADJUSTED) AND ARE UP 28 PERCENT FOR THE FIRST QUARTER OVER THE FIRST QUARTER OF 1977 WITH A MONTHLY AVERAGE OF $1,008 MILLION. HEAVY INDUSTRIAL PRODUCTS, INCLUDING CHEMICAL EXPORTS, PACED THE FIRST QUARTER WITH A 37 PERCENT GAIN OVER LAST YEAR'S FIRST QUARTER. PARTICULARLY STRONG WERE MACHINERY EXPORTS (UP 82 PERCENT) AND ELECTRONICS (21 PERCENT). FOOTWEAR LEAD THE GROWTH OF LIGHT INDUSTRY EXPORTS WITH A SOLID 42 PERCENT GROWTH IN THE FIRST QUARTER. HOWEVER, IN MARCH THE STRONGEST GAINS OVER THE PREVIOUS MONTH WERE REGISTERED BY TEXTILES (37 PERCENT), FOOTWEAR (34 PERCENT), IRON AND STEEL (33 PERCENT) AND CHEMICALS (29 PERCENT). L/C ARRIVALS CONTINUE TO GROW AND ARE UP 17 PERCENT FOR THE FIRST QUARTER AND 20 PERCENT IN MARCH ALONE. ($1,040 MILLION OR $944 MILLION SEASONALLY ADJUSTED.)

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5. IMPORTS ARE ALSO DOING FINE. TOTAL IMPORTS FOR THE FIRST QUARTER ARE UP 30 PERCENT FROM THE FIRST QUARTER OF LAST YEAR. IMPORTS IN MARCH AT $1,087 MILLION ($1,033 MILLION SEASONALLY ADJUSTED) INCREASED 16 PERCENT OVER FEBRUARY LEVELS. IT SHOULD BE NOTED THAT FOREIGN EXCHANGE SETTLEMENT IMPORTS ARE GROWING AT AN EVEN FASTER RATE, UP 41 PERCENT OVER THE FIRST QUARTER OF LAST YEAR. LEADING THE IMPORT GROWTH DURING THE FIRST QUARTER WERE CAPITAL GOODS (UP 45 PERCENT), ANOTHER INDICATION OF INCREASED INVESTMENT ACTIVITY. ESPECIALLY STRONG DURING THIS QUARTER WERE IMPORTS IN PRECISION MACHINERY (UP 66 PERCENT), GENERAL MACHINERY (42 PERCENT) AND TRANSPORTATION EQUIPMENT (99 PERCENT). INDUSTRIAL RAW MATERIAL IMPORTS FOR THE FIRST QUARTER WERE UP 24 PERCENT OVER EARLIER-YEAR LEVELS WITH CRUDE PETROLEUM IMPORTS INCREASING BY 18 PERCENT. CONSUMER GOOD GROWTH--INCLUDING GRAINS--SHOWED A 20 PERCENT GAIN, ALTHOUGH DIRECT CONSUMER GOOD IMPORTS WERE UP BY 46 PERCENT. DURING MARCH BEST GROWTH WAS RECORDED IN IMPORT OF CHEMICALS (165 PERCENT), TRANSPORTATION EQUIPMENT (38 PERCENT) AND
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DIRECT CONSUMER GOODS (38 PERCENT).

6. THAT IMPORT LIBERALIZATION MAY BE TAKING EFECT IS SHOWN BY THE STRONG UPTHRST IN IMPORT LICENSES ISSUED. THESE RECORDED A 51 PERCENT GROWTH RATE IN THE FIRST QUARTER OVER THE SAME PERIOD IN 1977 AND IN MARCH ROSE 31 PERCENT OVER FEBRUARY ISSUANCES. ANOTHER 200 ITEMS ARE EXPECTED TO BE ANNOUNCED FOR WMPORT LIBERALIZATION WITHN THE NEXT FEW DAYS.

7. THE BALANCE OF PAYMENTS FOR THE FIRST QUARTER SHOWS A SMALL $65 MILLION DEFICIT ON CURRENT ACCOUNT WITH A $256 MILLION TRADE DEFICIT. INVISIBLES REMAINED IN SURPLUS AT $128 MILLION. ALTHOUGH NET LONG-TERM CAPITAL INFLOWS REMAINED POSITIVE AT $390 MILLION, CONTINUED REPAYMENTS OF SHORT-TERM TRADE CREDITS AND A DECLINE IN SHORT-TERM COMMERCIAL CREDIT INFLOWS RESULTED IN A SMALL $49 MILLION DROP IN FOREIGN EXCHANGE HOLDINGS. THE LATTER STAND AT $4,257 MILLION AT THE END OF MARCH.

8. FINALLY, FOR ONCE THERE WAS WELCOME NEWS ON THE MONEY AND PRICE FRONTS. AS A RESULT OF A 5.4 PERCENT DECLINE IN THE MONEY SUPPLY IN MARCH, PRINCIPALLY DUE TO GAINS IN GOVERNMENT TAX RECEIPTS AND A SMALL DECLINE IN NET FOREIGN ASSETS, THE ANNUAL RATE ON A YEAR-TO-YEAR BASIS FELL TO 35 PERCENT IN MARCH COMPARED TO THE 42 PERCENT RATE REGISTERED IN FEBRUARY. GOVERNMENT OFFICIALS BELIEVE THAT WITH CONTINUED TIGHT CONTROLS THE MONETARY EXPANSION CAN BE BROUGHT DOWN TO 30 PERCENT OR LESS BY THE YEAR'S END.

9. CONSUMER PRICES ROSE 1.3 PERCENT (0.3 PERCENT SEASONALLY ADJUSTED) IN MARCH, THE LOWEST RATE TO DATE THIS YEAR AND ARE NOW 6.4 PERCENT ABOVE DECEMBER.
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ANALYSIS OF WEEKLY DATA SHOW A CONTINUAL DECLINE IN THE RATE OF GROWTH THROUGHOUT THE MONTH. FOOD PRICES NOW APPEAR ON A DOWNTREND. WHOLESALE PRICES WERE UP 0.3 PERCENT FOR THE MONTH (0.5 PERCENT SEASONALLY ADJUSTED) AND SHOW A 4.4 PERCENT GAIN OVER DECEMBER. EFFORT TO CONTROL THE INFLATIONARYH PRESSURES APPEAR TO BE TAKING SOME EFFECT.

10. COMMENT: THERE IS LITTLE NEED FOR ADDITIONAL COMMENT SINCE THE FACTS SPEAK FOR THEMSELVES. THE ONE DANGER MAY BE THAT THE ECONOMY IS IN DANGER OF BECOMING OVERHEATED. THE INDICATED PICKUP IN INVESTMENT ACTIVITY IS WELCOME NEWS FOR THE LONG TERM, BUT A BIG INVESTMENT, COUPLED WITH THE PRESENT TORRID CONSTRUCTION, BOOM COULD RESULT IN SHORTAGES, ESPECIALLY CERTAIN CLASSES OF LABOR, AND RENEWED PRESSURES ON PRICS.

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